

THE NORTHEAST HEATING OIL RESERVE SALE IMPLEMENTATION PLAN

I. INTRODUCTION:

The Department of Energy has created a regional distillate reserve in the Northeast, commonly referred to as the Northeast Heating Oil Reserve (Reserve), as part of the Strategic Petroleum Reserve. The Reserve consists of two million barrels of heating oil; one million barrels are stored in facilities located on New York harbor and one million barrels are stored in New Haven, Connecticut. In the event the President should make a finding of a “severe energy supply interruption,” as defined by the Energy Policy and Conservation Act, the Department of Energy would sell and distribute some or all of the heating oil contained in the Reserve. This is the Department’s proposed plan for selling and distributing the oil.

Strategic Petroleum Reserve Plan Amendment No. 6, Regional Distillate Reserve in the Northeast, describes various options for the sale of the heating oil from the Reserve. The purpose of this sale implementation plan is to describe in greater detail how the Department will sell the heating oil.

II. BACKGROUND:

On July 10, 2000, President Clinton directed the Secretary of Energy to create a home heating oil reserve in the Northeast. The Reserve is designed to reduce the risks presented by home heating oil shortages, such as the one that occurred during January and February 2000.

The purpose of the Reserve is to supplement supply in the event normal commercial practices are not able to supply all of the heating oil demanded. The intent is to create a buffer large enough to allow commercial companies to compensate for interruptions in supply or severe winter weather, but not so big as to dissuade suppliers from responding to increasing prices as a sign that more supply is needed.

On the same day the President gave his direction to Secretary Richardson, the Department of Energy forwarded Strategic Petroleum Reserve Plan Amendment No. 6 to Congress to provide for the creation of a regional distillate oil reserve in the Northeast containing up to two million barrels of product. The Plan provides that the Government will store the distillate in existing and operating commercial storage facilities. In addition, the Plan provides the distillate to be stored, and storage services, would be acquired by exchanging Strategic Petroleum Reserve crude oil.

The Defense Energy Supply Center issued a solicitation for the Department of Energy for both storage facilities and heating oil, awards were made, and the Government now owns two million barrels of heating oil. The contracts for storage are with: Amerada Hess, which is storing one million barrels of

heating oil in its terminals on the New Jersey side of New York harbor; Morgan Stanley, which is storing 500,000 barrels of heating oil at the Williams terminal in New Haven, Connecticut; and Equiva, which is storing 500,000 barrels of heating oil at the Motiva terminal in New Haven, Connecticut. Storage contracts are for one year, with a one year option for renewal.

The locations of the Northeast Heating Oil Reserve were determined through a competitive procurement process, which solicited separately for storage facilities in the New England states (Connecticut, Massachusetts, Rhode Island, New Hampshire, Vermont, and Maine) and the New York/New Jersey coastal area. These states qualify for a regional reserve based upon import dependence, and are also the states which are the most heavily dependent upon heating oil and which have the poorest logistical infrastructure for deliveries during severe winter weather conditions.

The Department commenced fill of the Northeast heating oil storage facilities in September, 2000. Between September 10 and October 15, 2000, the Government took delivery of two million barrels of heating oil, which completed the physical implementation of the Department's Northeast Heating Oil Reserve.

III. SALES METHOD:

The Department has considered a number of alternative strategies for the sale of the heating oil in the Reserve. Should the President order a drawdown of the Reserve, the principal sales method would be a competitive sale by closed bid. This is consistent with Strategic Petroleum Reserve Plan Amendment No. 4, Strategic Petroleum Reserve Drawdown Plan and Strategic Petroleum Reserve Plan Amendment No. 6. The Department also considered selling the heating oil by open auction using an e-commerce platform. To facilitate and expedite planning for the quickly approaching 2000-2001 heating oil season, the closed bid process was selected for the first year of the program because it could be easily accommodated utilizing the Department's Industry Interactive Procurement System (IIPS). Standard sales provisions are being drafted and will be posted on the IIPS (<http://doe-iips.pr.doe.gov>) and Fossil Energy (www.fe.doe.gov) web sites before winter 2000-2001.

Under the closed bid competitive sales process, applicants will submit bids over a specified time period via internet, but the bidders will not be privy to the offers of other bidders. Following a short evaluation period by the Department of Energy at the close of the offering, bidders will be advised of award. Public announcement of the sale results will occur slightly later, following the notification to the successful bidders. In order to react as quickly as possible to an emergency situation, the Department anticipates that the sales process will be completed in one to two days.

A. Registration:

A list of potential bidders for a sale of heating oil from the Northeast Heating Oil Reserve will be maintained by the Strategic Petroleum Reserve Program Office, Washington, D.C. Companies or

individuals who desire prompt notification of an imminent Northeast Home Heating Oil sale may register via the Fossil Energy web site (www.fe.doe.gov). They will receive notification by e-mail as soon as the Presidential announcement has been made and the notice of sale is issued.

B. Sales Notification and Schedule:

Immediately following a finding by the President to draw down the Home Heating Oil Reserve, the Department will issue a notice of sale and notify all registered companies. The notice will be posted on the Fossil Energy and IIPS web sites and specify the amount, characteristics, location of the heating oil to be sold, procedures for submitting bids and approximate delivery dates. Receipt of bids will begin with the posting on IIPS. If the announcement of the Presidential finding occurs prior to the close of the business (in Washington, D.C.), the offering will close on the next business day. If the announcement is made after the close of business, the offering will close two business days later.

Under the most likely scenario, the bidding will close at noon either the first or second day after the notice of sale is posted. The buyers will submit bids through the Department's secure electronic procurement platform IIPS. Bids will specify the quantity, location and price expressed as a premium to the New York Mercantile Exchange (NYMEX) near month closing price for heating oil on the day of the bidding. For example, from December 1 to December 31, January is the near month contract. Companies may submit multiple bids. A bidder must submit a financial guarantee of \$250,000 wired to the location designated by the Department either with or in advance of his bids. The Department of Treasury has a system to notify the Department of Energy of guarantee receipt. The financial guarantee must be in this system by 1 p.m. EST.

After evaluation, the Department will select the successful bids. Successful bidders will be notified before the close of the NYMEX that day and the public announcement of companies with winning bids will occur after the close of the NYMEX (3:10 p.m. EST). Financial guarantees will be returned to unsuccessful bidders in one to two days.

A typical schedule for a Northeast Home Heating Sale might be:

Day 1	Presidential Finding
	Notify registered companies and wire services
	Post Notice of Sale on IIPS and begin receipt of bids
Day 2 or 3 (depends on timing of Presidential finding)	
Noon	Close bidding
1 p.m. EST	Financial guarantees must be received
2 p.m. EST	Notify bidders before close of NYMEX
Post 3:10 p.m. EST	Public announcement of successful bidders

C. Volumes Offered, Purchaser Volume Restrictions:

The notice of sale will specify the maximum quantities to be sold from each terminal location, minimum contract quantities, lot size restrictions, and maximum quantity award restrictions per company. The Department will determine the total volume of heating oil to be offered based on market conditions at the time of the sale. Bids must be expressed in multiples of 50,000 barrels. Multiple bids may be submitted, but no one company will be awarded more than 50 percent of the heating oil offered at any one geographical location (i.e. New York Harbor or New Haven). This limitation is intended to prevent any potential for a monopoly position in the resale of the oil. The Department reserves the right to limit the total volume awarded based on the reasonableness of the bids (including not awarding any sales contracts).

D. IIPS:

IIPS will be used to issue the notice of sale and related documents, receive bids electronically, and issue award notices and documents. Access to the submissions will be provided only to authorized Departmental personnel. Firms must complete the on-line registration process via the system to submit bids. Once registered, the firms will be able to submit their bids on-line using this secure program. Business sensitive information is encrypted both during transmission and when stored on the Department's server. Internal users of IIPS (evaluators and contracting personnel) are identified during the planning stage and then added to an appropriate access control list. These internal users must complete the on-line registration process also and gain access to IIPS via the internet. The evaluators and contracting personnel are able to access bids via the internet using a secure connection (Secure Socket Layer Technology).

A public briefing may be provided to interested firms prior to the notice of sale being posted on IIPS. This briefing will demonstrate to the firms how a bid is submitted. The Office of Headquarters Procurement Services will host this briefing and coordinate their efforts with the Office of Fossil Energy.

E. Payment:

Heating oil from the Reserve will be delivered on a prepaid basis only. The buyer will be required to wire payment to the Government within 48 hours following notification of award, or prior to taking delivery if less than 48 hours. The bid financial guarantee may be applied toward this payment. A failure to prepay may result in the Government selling the oil to another party and forfeiture of the bid guarantee.

IV. DISTRIBUTION PLAN:

The distribution plan for the Northeast Heating Oil Reserve is based on maximum use of the commercial terminal infrastructure and industry procedures in place, since the greatest potential for efficient and expeditious distribution of the heating oil stocks rests with the industry performing these functions.

Under the Government's storage contracts, the terminals have the responsibility to: provide inventory management and quality control of the Government's stocks; provide full availability of the Government's product in the event of a release (no portion of the government's heating oil is in minimum operating levels); provide the capability to deliver all the Government's product in less than 10 days on a 24 hour notice; and provide the capability to distribute heating oil by tanker/barge and truck facilities.

Distribution:

The Government's heating oil will be sold and delivered to the buyer F.O.B. the terminals in both New Haven, CT, and New York Harbor. The ownership of the heating oil will be transferred to the buyer at the terminal, and the buyer will assume full responsibility for distribution arrangements. The heating oil will be available to the buyers by ship, barge, truck, and pipeline (where available) subject to limitations of the terminal.

The Government's heating oil will be distributed from two terminals in New Haven, CT, Williams and Motiva, and from up to four Amerada Hess terminals in New York Harbor. The Department's contract with Amerada Hess provides for heating oil distribution from four Amerada Hess terminals in the New York Harbor area: First Reserve, Port Reading, Bayonne, and Newark. Descriptions of the available distribution capabilities for each terminal are attached.

In recommending to the President that the Reserve will be drawn down, if necessary, the Secretary of Energy will include a recommendation to the President to direct the Secretary of Treasury to waive compliance with the coastwise laws, which will include the law referred to as the "Jones Act," for marine deliveries of heating oil from the Reserve.

The buyer of the heating oil will be responsible for all transportation arrangements and costs. Within 24 hours of being awarded a heating oil contract by the Department, the buyer shall advise the Department and the terminals of the desired delivery mode(s) and respective volumes. The buyer shall make arrangements to have delivery of their oil take place within ten days of award.

Vessel and barge nominations and assignment of lifting windows shall be in accordance with the terminals' scheduling procedures. Truck liftings will be subject to terminal capacities and restrictions. Pipeline nominations will be in accordance with the pipeline company's procedures.

TERMINAL DATA

Name: First Reserve Terminal Contact:
Location: Convery Blvd, Perth Amboy, NJ Manager: Jack Potts
Waterfront Loc.: Raritan Bay Tel. No.: (732) 750-6066
Owner: Amerada Hess Fax No.: (732) 826-3248
Operator: Amerada Hess e-mail: _____
Hours of Operation: 24 hrs/7 days

Delivery Modes:

Ship Docks

Dock #	Max. Loading Rate (bbls/hr)	Max. LOA(ft)	Max. Beam (ft)	Max. Draft (ft)	Max. DWT
1	5000	660		27	

Barge Docks

Dock #	Max. Loading Rate (bbls/hr)	Max. LOA(ft)	Max. Beam (ft)	Max. Draft (ft)	Max. DWT
A	5000	300		17	
B	5000	300		17	

Pipelines

Name	Size(in)	Capacity(bbls/hr)	Inject.Rate(bbls/hr)

Truck Loading Racks:

Hours of Operation: 24 hrs/7 days
Top-loading Positions: 4 Max. Loading Rate/Truck: 400gpm
Bottom-loading Positions: 1 Max. Loading Rate/Truck: 400gpm

Remarks/Restrictions:

TERMINAL DATA

Name: Pt. Reading Terminal Contact:
Location: Cliff Rd, Pt. Reading, NJ Manager: R. Sloan Schoyer
Waterfront Loc.: Woodbridge, NJ Tel. No.: (732) 750-7860/7808
Owner: Amerada Hess Corporation Fax No.: (732) 636-3876
Operator: Amerada Hess Corporation e-mail: sschoyer@hess.com
Hours of Operation: 24 hrs/7 days

Delivery Modes:

Ship Docks

Dock #	Max. Loading Rate (bbls/hr)	Max. LOA(ft)	Max. Beam (ft)	Max. Draft (ft)	Max. DWT
North	8000	900		33	100,000
South	8000	800		33	65,000

Barge Docks

Dock #	Max. Loading Rate (bbls/hr)	Max. LOA(ft)	Max. Beam (ft)	Max. Draft (ft)	Max. DWT
N. Bulkhead	4000	350		20	
Foob	4000	350		20	
Ethel	4000	325		20	
South Slip	4000	300		18	
S. Bulkhead	4000	300		12	

Pipelines

Name	Size (in)	Capacity(bbls/hr)	Inject.Rate(bbls/hr)
Colonial (Outbound)	12		3500
Buckeye (Outbound)	12	5000	5000

Truck Loading Racks:

Hours of Operation: 24 hrs/7 days
Top-loading Positions: 2 Max. Loading Rate/Truck: 300 GPM
Bottom-loading Positions: 2 Max. Loading Rate/Truck: 300 GPM

Remarks/Restrictions:

TERMINAL DATA

Name: Bayonne, NJ Terminal Contact:
Location: 420 Hook Road, Bayonne, NJ Manager: Steve Todd
Waterfront Loc.: Kill Van Kull Tel. No.: (201) 437-1017
Owner: Amerada Hess Fax No.: (201) 437-1098
Operator: Amerada Hess e-mail: _____
Hours of Operation: 24 hrs/7 days

Delivery Modes:

Ship Docks

Dock #	Max. Loading Rate (bbls/hr)	Max. LOA(ft)	Max. Beam (ft)	Max. Draft (ft)	Max. DWT
1	5000	900		37	

Barge Docks

Dock #	Max. Loading Rate (bbls/hr)	Max. LOA(ft)	Max. Beam (ft)	Max. Draft (ft)	Max. DWT
East	5000	300		20	
West	5000	225		19	

Pipelines

Name	Size	Capacity(bbls/hr)	Inject.Rate(bbls/hr)

Truck Loading Racks:

Hours of Operation: 24 hrs/7 days
Top-loading Positions: 4 Max. Loading Rate/Truck: 600 gpm
Bottom-loading Positions: _____ Max. Loading Rate/Truck: _____

Remarks/Restrictions:

TERMINAL DATA

Name: Newark – Delancy St Terminal Contact:
Location: 111 Delancy St., Newark , NJ Manager: Matt Paraskevas
Waterfront Loc.: West Bank N Reach of Newark Bay Tel. No.: (973) 589-0100
Owner: Amerada Hess Corporation Fax No.: (973) 589-3473
Operator: Amerada Hess Corporation e-mail: _____
Hours of Operation: 24 hrs/7 days

Delivery Modes:

Ship Docks

Dock #	Max. Loading Rate (bbls/hr)	Max. LOA(ft)	Max. Beam (ft)	Max. Draft (ft)	Max. DWT

Barge Docks

Dock #	Max. Loading Rate (bbls/hr)	Max. LOA(ft)	Max. Beam (ft)	Max. Draft (ft)	Max. DWT
1	6000	450	100	16 MLW	

Pipelines

Name	Size	Capacity(bbls/hr)	Inject.Rate(bbls/hr)

Truck Loading Racks:

Hours of Operation: 24 hrs/7 days
Top-loading Positions: 7 Max. Loading Rate/Truck: 600 GPM
Bottom-loading Positions: 4 Max. Loading Rate/Truck: 600 GPM

Remarks/Restrictions:

TERMINAL DATA

Name: Motiva Enterprises LLC Term Contact: Herm Rogers/Steve Knapp
 Location: New Haven, Manager: Herm Rogers
 Ct. _____
 Waterfront Loc.: 481 E Shore Parkway Tel. No.: (203) 468-4000 X107
 Owner: Motiva Fax No.: (203) 468-4015
Enterprises _____
 Operator: Motiva e-mail: _____
Enterprises _____ htrogers@motivaenterprises.com
 Hours of Operation: 24 hrs/7 days

Delivery Modes:

Ship Docks:

Dock #	Max. Loading Rate (bbls/hr)	Max. LOA(ft)	Max. Beam (ft)	Max. Draft (ft)	Max. DWT
Berth 1 (Outside)	10,000	750	106	36	50,000

Barge Docks:

Dock #	Max. Loading Rate (bbls/hr)	Max. LOA(ft)	Max. Beam (ft)	Max. Draft(ft)	Max. DWT
Berth 2 (Inside)	10,000	400	85	23-1/2	75,000 bbls ***

Pipelines:

Name	Size (in)	Capacity(bbls/hr)	Inject. Rate(bbls/hr)
Buckeye Pipeline	12	4000	1,750 – 3,900*

Truck Loading Racks:

Hours of Operation: 24 hrs/7 days
 Top-loading Positions: 4 Max. Loading Rate/Truck: 600 GPM
 Bottom-loading Positions: 3 Max. Loading Rate/Truck: 1,200 GPM**

Remarks/Restrictions:

- * Terminal capable of injecting product to Buckeye Pipeline at rates up to 10,000 Bbls/Hr, however pipeline flow rates vary from 1,750 to 3,900. Bbls/Hr.
- ** 1 Position – 2 loaders 1,200 GPM, 2 Positions – 1 loader 600 GPM each
- *** Barge limit expressed in barrels

TERMINAL DATA

Name: Williams Energy Terminal Contact:
Location: 280 Waterfront/134Forbes Manager: Ed Fuchs
Waterfront Loc.: 280 Waterfront Tel. No.: (203) 466-4425
Owner: Williams Energy Fax No.: (202) 466-4415
Operator: Williams Energy e-mail: efuchs@prodigy.net
Hours of Operation: 24 hrs/7 days

Delivery Modes:

Ship Docks

Dock #	Max. Loading Rate (bbls/hr)	Max. LOA(ft)	Max. Beam (ft)	Max. Draft (ft)	Max. DWT
T –Dock	4000/4000*	750	105	36	40,000

* Note: Max Loading rate with two lines 8000 BPH (4000 BPH each)

Barge Docks

Dock #	Max. Loading Rate (bbls/hr)	Max. LOA(ft)	Max. Beam (ft)	Max. Draft (ft)	Max. DWT
Same					

Pipelines

Name	Size (in)	Capacity(bbls/hr)	Inject.Rate(bbls/hr)
Buckeye Pipeline	12	4000	3100

Truck Loading Racks:

Hours of Operation: 24 hrs/7days
Top-loading Positions: 3 Max. Loading Rate/Truck: 600 GPM
Bottom-loading Positions: 4 Max. Loading Rate/Truck: 1500 GPM**
** Note: Two bays with two loading arms

Remarks/Restrictions:

- Waterfront and Forbes Terminals act as a single unit for inventory and distribution purposes.
- Trucks must meet Williams' approval, including, but not limited to, safety and insurance requirements.

TERMINAL DATA

Name: Williams Energy Terminal Contact:
Location: 85 East/Hamden Manager: Ed Fuchs
Waterfront Loc.: 85 East Tel. No.: (203) 466-4425
Owner: Williams Energy Fax No.: (202) 466-4415
Operator: Williams Energy e-mail: efuchs@prodigy.net
Hours of Operation: 24 hrs/7 days

Delivery Modes:

Ship Docks

Dock #	Max. Loading Rate (bbls/hr)	Max. LOA(ft)	Max. Beam (ft)	Max. Draft (ft)	Max. DWT
L.O. Dock	7000 BPH	700	100	36	40,000

Barge Docks

Dock #	Max. Loading Rate (bbls/hr)	Max. LOA(ft)	Max. Beam (ft)	Max. Draft (ft)	Max. DWT
Same					

Pipelines

Name	Size (in)	Capacity(bbls/hr)	Inject.Rate (bbls/hr)
Buckeye Pipeline	12	4000	4000

Truck Loading Racks:

Hours of Operation: 5 days/12 hrs (24hrs/7days available as required)
Top-loading Positions: 3 Max. Loading Rate/Truck: 600 GPM
Bottom-loading Positions: 2 Max. Loading Rate/Truck: 1600 GPM**
** Note: One bay with two loading arms

Remarks/Restrictions:

- 85 East and Hamden Terminals act as a single unit for inventory and distribution purposes
- Trucks must meet Williams' approval, including, but not limited to, safety and insurance requirements.